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SUBJECT: BILATERAL AND TAIWAN RELATIONS: SHANGHAI INSTITUTE FOR INTERNATIONAL STUDIES SCHOLARS LOOK AHEAD RE RELATIONS WITH UNITED STATES, TAIW

CLASSIFIED BY: Simon Schuchat, Acting Consul General, U.S.  
Consulate General, Shanghai, China, Department of State.  
REASON: 1.4 (b), (d)

1. (C) Summary. Shanghai Institute for International Studies leaders outlined for visiting State Department official David Shear on May 22 several of China's foreign policy priorities and discussed China's growing comfortableness with multilateral engagement. They strongly urge that the next U.S. administration continue the Strategic Economic Dialogue (SED), the Senior Dialogue and the emerging military-military relationship. The May 20 inauguration speech by new Taiwan President Ma Ying-jeou attracted favorable comment and China has already reacted positively. Positive developments from Taiwan in cross-strait relations will precede any movement by China to grant Taiwan some international space. Mainland scholars are now contemplating whether some international space for Taiwan could be arranged by participation in an ASEAN plus three plus one (Taiwan) structure. ARATS and SEF will soon resume discussions, to be led on the Chinese side by Chen Yunlin (currently head of the State Council's Taiwan Affairs Office). China has not acted on Nicaraguan interest to switch its diplomatic recognition from Taipei to Beijing on an ad hoc basis while considering whether Taipei and Beijing can stop their war for diplomatic recognition. End summary.

2. (C) David Shear, the next Director of State's Office of Chinese and Mongolian Affairs, met on May 23 with SIIIS President Yang Jiemian and Vice President Chen Dongxiao. Shear expressed condolences for the May 12 Sichuan earthquake; Yang said the event had shocked all in China and that for persons of his age, brought back recollections of the aftermath of the 1976 earthquake catastrophe in Tangshan. All Chinese citizens are pouring out sympathy and support to the earthquake victims. China thanks the United States for condolences offered and support rendered in the aftermath of the Sichuan earthquake.

#### China's Foreign Policy Priorities

13. (C) Yang, brother of China's Foreign Minister, enumerated several of China's top foreign policy priorities at this time. First is improving China's relations with "big powers," foremost with the United States. While ten years ago China might have focused only on the United States, globalization and the emergence of new powers, China must develop better relations with multiple powers. Today the United States may be the only superpower but two decades from now will only be first among equals. Second, China aims to improve its relations within Asia. China needs a foreign policy for Asia that accommodates the interests of the United States, Japan and China's neighbors. China must keep the United States informed about its intentions and activities within Asia, Yang said, whether or not the United States is a part of a particular regional security architecture. One of the means to keep the United States informed is by regular high-level exchanges. Yang strongly urged continuation into the new U.S. administration of the Strategic Economic Dialogue, the Senior Dialogue and the emerging military-military relationship, even if a new administration has new ideas for those dialogues or even if the frequency of such exchanges needs to be modified. In its foreign policy, China also seeks to move beyond ad hoc arrangements and establish mechanisms in the international arena to confront non-traditional security issues, such as fighting terrorism and dealing with epidemics or emerging diseases such as SARS.

#### China's Relations with the United States and Multilateral Engagement

14. (C) Yang noted that in each U.S. Presidential transition save one (1989 Reagan to Bush) since the establishment of diplomatic relations in 1979, the pendulum in the bilateral relationship has swung against China in each President's first term. While China does not foresee far-reaching changes to U.S. China policy in 2009, regardless of who wins the U.S. election, Yang suggested that with hard work by both sides the impact on bilateral relations of a transition in Washington can be handled better than in the past. Yang said he advises the Foreign Ministry's U.S. Affairs desk in Beijing to put China's relations with the United States against a broader background than just the bilateral relationship. Indeed, China has discovered benefits from a more multilateral approach to foreign policy and to the United States. Most notably, into the 1990s, China had often been isolated in multilateral settings. The first APEC Summit in Seattle had provided an opportunity for Presidents Jiang and Clinton to meet without violating any U.S. sanctions and APEC has provided an annual opportunity for meetings to exchange views regardless of the bilateral relationship status at those times. Cooperation on the Korean Peninsula nuclear issues, a multi-nation undertaking, has also provided opportunity to strengthen relations and cooperation with the United States. Hard work with the United States to find ways to

build the bilateral relationship on its positive aspects, not just shared prevention of Taiwan independence, needs to be addressed by both sides. Possible future U.S. rewards to Taiwan President Ma for his comparatively good behavior could become irritants in the U.S.-China relationship, as would arms sales to Taiwan or increased U.S. military contacts with Taiwan. China expects and is worried about more U.S. arms sales to Taiwan, but that concern could be managed in part by advance knowledge of the sales.

#### Financial Consultations; Development of Civil Society

15. (C) Enhanced cooperation in international financial matters is a topic for further bilateral engagement, Yang suggested. China respects U.S. primacy in international financial matters. Still, Chinese academics are engaged in heatedly debating Sino-U.S. cooperation in the monetary and financial fields. The renminbi has already appreciated more than 15 percent against the U.S. dollar; China has accumulated more than USD 1.7 trillion in foreign exchange reserves, 70 percent or more of which is held in USD-denominated assets such as Treasury bonds; every bit more of RMB appreciation against the dollar inflicts financial losses on China. China does not know how to productively use its forex reserves. China will raise this topic in the Strategic Economic Dialogue. China seeks a more consultative mechanism for consideration of global and regional financial issues. China will also seek to expand and consolidate people-to-people relations with U.S. NGOs. The Chinese people's responses to the Sichuan earthquake and support for the Beijing Olympics torch run in reaction to protests in foreign locations about China are changing the way Chinese civil society will develop. The Chinese leadership's emphasis on saving people's lives first in Sichuan, whereas thirty years ago priority would have been given to saving the state's property, shows that U.S. and Chinese values are beginning to converge as China integrates more fully with the rest of the world. The United States, especially the parochial U.S. Congress, should wake up and realize that 9-11 meant the end of physical boundaries. The United States has the might to impose its will on others -- for perhaps another 20 years. Consider how much and how quickly China's place in the world has changed in the last 20 years; America should display its leadership by example. The United States will need to work harder to maintain its leadership role in the world, by reforming education and improving customer service at local levels. Both sides need to put new momentum into the bilateral relationship, which remains each country's most important bilateral relationship.

#### Taiwan: Positive Reaction to Ma's Inauguration Speech

16. (C) Ma Ying-jeou's May 20 Presidential inauguration speech in Taipei was positive in the mainland's view in at least three aspects. First, Ma has put cross-strait rapprochement among his government's top three priorities, along with improving Taiwan's relations with the United States and with Japan. These choices show why Ma was elected and Chen Shui-bian and Frank Hsieh were rejected by Taiwan's voters. Second, Ma responded favorably to President Hu Jintao's 16-character prescription for cross-strait relations (shelve disagreements, seek common development) that Hu had spoken to Taiwan Vice President-elect Vincent Siew at the Boao Forum this spring. Ma's speech generated a favorable response by State Council Taiwan Affairs Office Minister Chen Yunlin on May 22. Chen will quickly move over to China's Association for Relations Across the Strait (ARATS) which will resume cross-strait talks with Taiwan's Strait Exchanges Foundation (SEF) as soon as possible. Third, Ma had spoken about the Chinese people (zhonghua minzu) rather than using a term like "compatriots" in discussing the Chinese in the mainland.

#### Nicaragua, WHO, and An ASEAN-plus Structure

17. (C) China will closely watch Ma's words and actions. Developments in cross-strait relations will precede any change regarding Taiwan's international space. China awaits gestures from Taiwan in the next two months or so, and China is already showing its good will towards Taiwan. For instance, the recently elected leaders of Nicaragua wished to switch diplomatic recognition from Taipei to Beijing upon entering office, Yang claimed. China decided not to implement that offered change, at least for now, to see whether an understanding can be reached that would allow a cessation to the war between Taipei and Beijing for diplomatic recognition. China is well aware of Taiwan's interest in joining the World Health Organization, but any changes to China's opposition will take some time. Mainland scholars are now contemplating whether some international space for Taiwan could be arranged by participation in an ASEAN plus three plus one (Taiwan) structure.

#### Ma the Man

18. (C) China sees a difficult challenge in understanding and dealing with Ma Ying-jeou. Ma's actions are sometimes value-based, sometimes ideological. He is "green" in that he is an inexperienced leader. Ma promised too much to Taiwan following his election. Ma is a Harvard-trained lawyer with excellent English and has seen much of the world. Ma needs to work with three factions in Taiwan, namely, the "KMT retirees" led by Lien Chan, the current KMT party leadership led by Wu Po-hsiung, and his own government. Cross-strait relations are less likely to be harmed by accident following establishment of direct air links and arranging for convertibility between the renminbi and the new Taiwan dollar. Chinese officials must also bear in mind that Taiwan is a bipartisan place, that is, Ma can be voted out of office if the voters are not pleased with developments. China needs to work together with Taiwan in this first real opportunity for cross-strait progress since Lee Teng-hui took office. Unlike the early days of ARATS-SEF engagement, when China's economy was much more laggard, today Taiwan is worried about being marginalized alongside the mainland economic juggernaut.

#### China-Japan Relations

19. (C) Yang said that all educated Chinese think about China's relations with three places, the United States, Japan and Taiwan. The bilateral relationship with the United States is the most important of these, as it has great impact on the other two. Yang commented briefly on important recent positive developments in China's relations with Japan. First, China

under Hu Jintao has de-linked Japanese leaders' visits to the Yasukuni Shrine from the issue of Presidential summits and other high-level engagement. Neither China nor Japan can afford to have forward movement in this important bilateral relationship held in abeyance by the Yasukuni issue, as was the case for nearly a decade. Second, Japan now sees the importance of improving its relations with China. Third, both China and Japan are considering a wider range of issues than during past bilateral engagement. During Hu's May visit, he notably emphasized the "future" and "Asia," for instance. China hopes that the United States can play a positive and constructive role in keeping China and Japan in the right track as they seek to improve their bilateral relations.

10. (U) Mr. Shear has cleared this report.  
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